

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 7304

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E.O. 11652: GDS

SUBJECT: FY 1977 PROGRAM SUBMISSION

REF: STATE 169799

PART TWO OF TWO-PART MESSAGE

7. FY 1977 PROGRAM

AS STATED ABOVE, THE NEXT TWO YEARS ARE EXPECTED TO BE A PERIOD OF GREAT POLITICAL STRESS FOR EGYPT, PARTICULARLY WITH REPECT TO ITS RELATIONSHIP WITH THE UNITED STATES. THIS WILL PLACE A HEAVY BURDEN ON U.S. ECONOMIC ASSISTANCE IN BOTH FY 1976 AND FY 1977 AS THE MAJOR EXPRESSION OF CONTINUED U.S. SUPPORT FOR PRESIDENT SADAT'S FOREIGN AND DOMESTIC POLICIES AND OF CONTINUED U.S. INTEREST IN EGYPT'S ECONOMIC STABILITY AND DEVELOPMENT. UNDER THESE CIRCUMSTANCES, WE STRONGLY RECOMMEND CONTINUATION OF U.S. ASSISTANCE TO EGYPT IN FY 1977 AT THE LEVEL OF \$500 MILLION. IN LIGHT OF THE ANTICIPATED INCREASE IN EGYPT'S CAPACITY TO ABSORB PROJECT ASSISTANCE, HOWEVER, WE PROPOSE TO REVERSE IN FY 1977 THE PROPORTIONATE SHARES OF B/P AND PROJECT-TYPE ASSISTANCE. TO THIS END, WE ARE PROPOSING \$300 MILLION FOR DEVELOPMENT PROJECTS AND ACTIVITIES JUSTIFIED WITHIN THE FRAMEWORK OF AN INTEGRATED NATIONAL DEVELOPMENT PROGRAM AND THE ALLOCATION OF THE REMAINING \$200 MILLION TO COMMODITY IMPORT FINANCING.

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8. COMMODITY IMPORT LOAN - \$200 MILLION

THE EGYPTIAN BALANCE OF PAYMENT WORSENEED CONSIDERABLY IN 1974 AND 1975, MOSTLY AS A RESULT OF A SURGE OF COMMODITY IMPORTS WHICH ARE EXPECTED TO BE AT LEAST FOUR TIMES GREATER IN 1975 THAN IN 1973. IN ORDER TO MEET THIS INCREASE IN ITS TRADE DEFICIT, EGYPT WAS FORCED TO INCREASE ITS SHORT-TERM INDEBTEDNESS TO FOREIGN BANKS. AS A RESULT OVER THE NEXT SEVERAL YEARS, THE EGYPTIAN GOVERNMENT IS FACED WITH THE PROBLEM OF REDUCING THIS SHORT-TERM INDEBTEDNESS AS WELL AS MEETING ITS ANNUAL BALANCE OF PAYMENT DEFICITS.

WHILE THE RATE OF GROWTH OF COMMODITY IMPORTS SHOULD DECLINE IN 1976, THE TRADE DEFICIT IS EXPECTED TO INCREASE, DESPITE THE ANTICIPATED GROWTH OF PETROLEUM EXPORTS. THIS INCREASE MAY BE OFFSET TO SOME EXTENT BY AN IMPROVEMENT IN THE BALANCE ON INVISIBLE TRANSACTIONS, IF INCREASED FOREIGN EXCHANGE EARNINGS FROM TOURISM AND THE REOPENED SUEZ CANAL ARE NOT OFFSET BY A REDUCTION IN ARAB SUBSIDIES. IN ANY EVENT, THE CURRENT ACCOUNT DEFICIT IS NOT EXPECTED TO DECREASE SIGNIFICANTLY OVER THE NEXT TWO YEARS. AN INCREASING PROPORTION OF THE DEFICIT, HOWEVER, SHOULD BE FINANCED BY DIRECT FOREIGN INVESTMENT (ESPECIALLY THROUGH JOINT VENTURES WITH ARAB INVESTORS) AND BY GREATER UTILIZATION OF OFFICIAL PROJECT ASSISTANCE (AS MORE FEASIBILITY STUDIES ARE COMPLETED).

IN RESPONSE TO EGYPT'S CRITICAL NEED FOR EMERGENCY B/P ASSISTANCE, THE U.S. AGREED TO PROVIDE \$400 MILLION IN IMPORT FINANCING ON CONCESSIONARY TERMS DURING CY 1975. THIS AMOUNT INCLUDES \$150 MILLION PL 480 TITLE I AND \$250 MILLION IN AID COMMODITY IMPORT LOANS OF WHICH \$100 MILLION IS TO BE FUNDED IN FY 1976. IN LIGHT OF EGYPT'S PROJECTED REQUIREMENT FOR CONTINUED B/P ASSISTANCE, WE RECOMMEND THAT A U.S. IMPORT FINANCING LEVEL OF \$350 MILLION (\$200 MILLION IN AID COMMODITY IMPORT LOANS AND \$150 MILLION IN PL 480) BE PLANNED FOR BOTH CY 1976 AND CY 1977.

THE PROPOSED CY 1977 LEVEL OF COMMODITY IMPORT LENDING REPRESENTS A COMPROMISE BETWEEN A) THE U.S. OBJECTIVE OF MOVING TOWARDS PROGRAMS WITH A GREATER LONG-TERM DEVELOPMENTAL IMPACT, B) AND EGYPT'S NEED FOR BALANCE OF PAYMENT ASSISTANCE OVER THE NEXT FEW YEARS. THUS, WHILE THE CIP FOR CY 1977
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WOULD REMAIN THE SAME, PROJECT ASSISTANCE WOULD INCREASE FROM \$200 MILLION TO \$300 MILLION.

9. FY 1977 PROJECT PROGRAM: \$300 MILLION

WE PROPOSE TO DEVIDE THE FY 1977 PROJECT PROGRAM INTO TWO MAJOR ELEMENTS: \$200 MILLION FOR RECONSTRUCTION AND DEVELOPMENT IN THE SUEZ CANAL AREA, AND \$100 MILLION FOR GENERAL DEVELOPMENT

PROJECTS ELSEWHERE, PRIMARILY FOR THE CONTINUATION OF PROGRAMS
BEGUN IN FY 1975 AND FY 1976.

A. SUEZ CANAL AREA

THE RECONSTRUCTION AND DEVELOPMENT OF THE SUEZ CANAL REGION
IS BEING PLANNED IN A SYSTEMATIC WAY BY THE GOE MINISTRY OF
HOUSING AND RECONSTRUCTION. THE REGION HAS BEEN DIVIDED INTO
THREE SUB-REGIONS (ISMAILIA, PORT SAID AND SUEZ) AND MASTER PLANS
FOR EACH OF THESE SUB-REGIONS ARE SCHEDULED TO BE APPROVED BY
MARCH 1976 WHILE A COMPREHENSIVE REGIONAL PLAN FOR THE ENTIRE
AREA IS SCHEDULED TO BE COMPLETED BY APRIL 1976. STATUS REPORTS
ISSUED IN MAY (FOR THE SUB-REGIONS), AND IN JUNE 1975 (FOR THE
ENTIRE REGION) PROVIDE BACKGROUND INFORMATION AND A GENERAL
FRAMEWORK FOR FURTHER PLANNING. WHILE SPECIFIC ACTIVITIES
AND INPUT REQUIREMENTS CANNOT BE DEFINED IN DETAILED TERMS AT
THIS TIME, FINAL DRAFTS OF BASIC PLANS ARE DUE TO BE COMPLETED BY
THE RESPECTIVE PLANNING FIRMS IN DECEMBER, 1975, AND SHOULD
PROVIDE THE BASIS FOR DEFINITIVE PROJECT DESCRIPTIONS FOR THE FY
1977 CONGRESSIONAL PRESENTATION.

B. GENERAL DEVELOPMENT

IN THE ABSENCE OF NEW FIVE YEAR PLAN NOW NEARING COMPLETION
WE ARE PROPOSING A CONTINUATION OF THE GRAIN STORAGE AND
DISTRIBUTION PROJECT AND A PROGRAM FOR THE IMPORTATION OF
AGRICULTURAL AND AGRO-INDUSTRY EQUIPMENT. WE ARE ALSO CONTINUING
INTO FY 1977 OUR SUPPORT IN THE AREAS OF TECHNOLOGY TRANSFER,
FEASIBILITY STUDIES, WATER MANAGEMENT AND RURAL HEALTH.

10. RECONSTRUCTION ACTIVITIES

REGIONAL RECONSTRUCTION AND DEVELOPMENT FUND \$100 M
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PORT RECONSTRUCTION AND EXPANSION \$100 M

A. REGIONAL RECONSTRUCTION AND DEVELOPMENT FUND

WE PROPOSE A PROGRAM FUND TO FINANCE IMPORTED GOODS AND SERVICES
REQUIRED FOR SUEZ CANAL REGION RECONSTRUCTION AND DEVELOPMENT
PROGRAMS. THE REGIONAL FUND CONCEPT WOULD MAKE IT POSSIBLE TO
(A) PROGRAM FY 77 FUNDS FOR SUPPORT OF PROGRAMS WHICH ARE STILL IN
PRELIMINARY PLANNING STATE (B) JUSTIFY AID FINANCING OF INTER-RELATED
ACTIVITIES ON AN INTEGRATED REGIONAL PROGRAM (RATHER THAN PROJECT)
BASIS, WITH THE GOE'S COMPREHENSIVE REGIONAL PLAN AND SUB-REGIONAL
MASTER PLANS PROVIDING THE ANALYTICAL FRAMEWORK, AND C) RELATE U.S.
FINANCED INPUTS TO GOE AND OTHER DONORS RESOURCES.

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ACTION SS-25

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(1) WATER AND SEWAGE: (\$50 MILLION)

A CRUCIAL ELEMENT IN THE RECONSTRUCTION AND EXPANSION OF THE THREE CANAL CITIES WILL BE THE PROVISION OF ADEQUATE WATER SUPPLIES AND FACILITIES FOR TREATMENT OF SEWAGE. WHILE DETAILED PLANS ARE NOT YET AVAILABLE ON THE TYPE OF FACILITIES REQUIRED AND THEIR CAPACITY, WE ESTIMATE THAT \$50 MILLION WILL BE NEEDED IN FY 77 FOR THESE INSTALLATIONS. SELECTION OF SPECIFIC FACILITIES TO BE FINANCED MUST, HOWEVER, AWAIT THE RESULTS OF MASTER PLANNING STUDIES NOW SCHEDULED FOR COMPLETION TOWARD THE END OF CY 1975.

(2) CONSTRUCTION MATERIALS AND EQUIPMENT: (\$30 MILLION)

AS THE PROCESS OF RECONSTRUCTION PROCEEDS IN THE SUEZ AREA, THE REQUIREMENT FOR CONSTRUCTION MATERIAL AND EQUIPMENT WILL INCREASE RAPIDLY. SPECIFIC REQUIREMENTS IN EITHER CATEGORY CANNOT BE ACCURATELY PREDICTED AT THIS POINT BUT ITEMS SUCH AS STRUCTURAL STEEL, STEEL REINFORCING RODS, PIPE, ELECTRICAL WIRING MATERIALS, VARIOUS BUILDING HARDWARE AND MANY OTHER ITEMS WILL UNDOUBTEDLY BE NEEDED IN AMOUNTS BEYOND THE CAPACITY OF EGYPTIAN INDUSTRY TO PROVIDE THEM. CONSTRUCTION EQUIPMENT SUCH AS CRANES, BULL-DOZERS, FRONT END LOADERS WHICH MUST BE IMPORTED WILL BE IN EVER INCREASING DEMAND.

WE PROPOSE THAT \$30 MILLION BE PROGRAMMED TO FINANCE SUCH EQUIPMENT.

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(3) IRRIGATION DEVELOPMENT: (\$20 MILLION)

THE MASTER PLAN STUDIES NOW BEING COMPLETED ON THE ISMAILIA AREA PROPOSE LARGE SCALE LAND RECLAMATION AND IRRIGATION DEVELOPMENT. WHILE THE FINAL SCALE OF THIS EFFORT IS YET TO BE DETERMINED, AND WILL DEPEND ON AVAILABILITY OF WATER, SUITABILITY OF SOILS, ETC., IT IS CLEAR THAT AN EXPANSION OF THE IRRIGATION SYSTEM WILL TAKE PLACE. WE PROPOSE TO FINANCE SUCH EQUIPMENT AS PUMPS, DRAINAGE TILE LAYING EQUIPMENT, SPRINKLER IRRIGATION PIPES AND HEADS, AS WELL AS LAND LEVELLING EQUIPMENT. THE EXACT COMPOSITION OF ANY EQUIPMENT INPUTS WILL BE DETERMINED AS DETAILED PLANS OF THE IRRIGATION SYSTEM ARE DEVELOPED.

B. PORT RECONSTRUCTION: (\$100 MILLION)

MASTER PLAN STUDIES OF PORT SAID AND SUEZ NOW NEARING COMPLETION CLEARLY INDICATE THE NEED FOR REHABILITATION, MODERNIZATION AND EXPANSION OF THE PORT FACILITIES OF THESE TWO CITIES TO ACCOMMODATE INCREASED TONNAGES OF CARGO WHICH ARE ANTICIPATED OVER THE NEXT 10 TO 20 YEARS AS A RESULT OF THE REOPENING OF THE SUEZ CANAL AND THE NEED TO RELIEVE THE ALREADY OVERLOADED PORT OF ALEXANDRIA. REACTIVATION AND EXPANSION IS ALSO AN ESSENTIAL ELEMENT IN PLANS TO PROVIDE EMPLOYMENT FOR TH GROWING POPULATION OF THE TWO CITIES.

PRESENT PROJECTIONS OF FREIGHT MOVEMENT INTO EGYPT THROUGH SUEZ IN 1980 RANGE FROM A LOW OF 4.3 MILLION TONS TO A HIGH OF 5.4 MILLION TONS AND FOR PORT SAID AT ABOUT 2.2 MILLION TONS.

TOTAL FOREIGN EXCHANGE COSTS OF PORT WORK ARE ESTIMATED TO BE APPROXIMATELY \$300 MILLION. WE PROPOSE THAT \$100 MILLION BE PROVIDED FOR SELECTED FACILITIES IN THE TWO PORTS - THE EXACT FACILITIES TO BE FINANCED TO BE DETERMINED AS THE PLANS ARE FURTHER DEVELOPED AND REFINED.

11. GENERAL DEVELOPMENT ACTIVITIES - \$100 MILLION

A. GRAIN STORAGE AND DISTRIBUTION EQUIPMENT \$65 MILLION

B. AGRICULTURAL MACHINERY PROGRAM 25 MILLION

C. TECHNOLOGY TRANSFER 3 MILLION

D. FEASIBILITY STUDIES 3 MILLION

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E. WATER MANAGEMENT PROJECT (TA) 2 MILLION

F. RURAL HEALTH PROJECT (TA) 2 MILLION

A. GRAIN AND EDIBLE OIL STORAGE AND DISTRIBUTION: (\$65 MILLION)

WE PROPOSE FURTHER SUPPORT OF THE GOE PROGRAM FOR IMPROVED STORAGE FOR GRAIN & OILS IN FY 1977 IN THE FORM OF \$40 MILLION FOR CONSTRUCTION OF ADDITIONAL STORAGE FACILITIES FOR GRAIN, TALLOW AND EDIBLE OILS AND \$25 MILLION FOR THE PURCHASE OF HANDLING AND TRANSPORT EQUIPMENT.

THE CONTINUING AIM IN THIS THIRD PHASE IS TO IMPROVE HANDLING AT REDUCED COSTS BY INCREASING THE CAPACITY TO HANDLE AND STORE BULK GRAIN, TO REDUCE LOSSES WHICH OCCUR AS A RESULT OF REPEATED HANDLING IN BAGS, AND TO REDUCE LOSS AND DAMAGE FROM INSECTS AND RODENTS. A NEW ELEMENT HAS BEEN INTRODUCED, HOWEVER, IN THAT WE MAY INCLUDE STORAGE FACILITIES FOR EDIBLE OILS AND TALLOW. INCREASED STORAGE CAPACITY WILL ALSO PERMIT THE ESTABLISHMENT OF BUFFER STOCKS AND INCREASED PURCHASES DURING PERIODS OF RELATIVELY LOW PRICES.

THE PROPOSED FY 1977 PROGRAM WOULD, AS PREVIOUSLY NOTED, FURTHER INCREASE STORAGE CAPACITY BUT WOULD MAKE FUNDS AVAILABLE FOR THE PROCUREMENT OF HANDLING AND DISTRIBUTION EQUIPMENT, SUCH AS CONVEYORS, FORK LIFT TRUCKS, TRUCKS AND TRAILERS FOR BULK GRAIN AND OIL. BARGES FOR BULK DELIVERY TO SITES ON THE NILE, AND WEIGHTING EQUIPMENT.

(B) AGRICULTURAL MACHINERY PROGRAM: (\$25 MILLION)

AS NEW LAND IS RECLAIMED AND AS EFFORTS TO INCREASE AGRICULTURAL PRODUCTIVITY IN PRESENTLY PRODUCING AREAS ARE MOUNTED, THE NEED FOR NEW INPUTS OF AGRICULTURAL MACHINERY WILL GROW AT A RAPID PACE. THE NEEDS FOR AGRICULTURAL MACHINERY WILL INCLUDE NOT ONLY NEW TRACTORS, PLOWS, CULTIVATORS, ETC., FOR ON FARM USE BUT EQUIPMENT FOR PROCESSING, CLEANING, PACKAGING AND OTHER ACTIVITIES RELATED TO MARKETING OF AGRICULTURAL PRODUCTS. MUCH OF THE PRESENT AGRICULTURAL MACHINERY IS OLD, IN POOR CONDITION, AND OF OBSOLETE DESIGN WITH THE RESULTS THAT OVER TIME THE TRACTORS IN EGYPT ARE DEADENED FOR WANT OF SPARE PARTS. WE PLAN TO SURVEY THE EXISTING INVENTORY AND DEVELOP WITH THE GOE A LIST OF PRIORITY

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REQUIREMENTS.

(C) TECHNICAL ASSISTANCE PROJECTS.

THESE ARE BASICALLY CONTINUATION OF ACTIVITIES INITIATED IN FY 1975 AND FY 1976.

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